



## ENVIRONMENTAL AND PUBLIC PROTECTION CABINET

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### NEWS RELEASE

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### **BEWARE: TOP 10 INVESTOR TRAPS OF 2007**

#### *Office of Financial Institutions lists the most common schemes facing investors*

FRANKFORT, Ky. (May 30, 2007) – The Office of Financial Institutions (OFI) today released its annual “Top 10” list of traps most likely to ensnare unwary investors.

“Investor traps are usually baited with slick sales pitches promising high returns for little or no risk,” said OFI Executive Director Cordell Lawrence. “It’s important to remember that there are no guarantees in investing. If it sounds too good to be true, it usually is.”

While many traps involve scams or misinformation, even legitimate investment products can be problematic if they are not suitable for an individual investor, Lawrence said. Before investing, make sure both the salesperson and the investment are licensed and registered in Kentucky. Lawrence also urged investors to obtain and read disclosure information that fully explains the investment before making any commitment.

The following are OFI’s “Top 10 Investor Traps of 2007.” A more detailed listing, complete with tips to avoid falling victim, is available on OFI’s Web site at [www.kfi.ky.gov](http://www.kfi.ky.gov).

**Affinity Fraud.** Con artists are increasingly targeting religious, ethnic, cultural and professional groups. Con artists may gain trust by joining the group. Or they may recruit respected members of the group to help promote the scheme by convincing them that a fraudulent investment is legitimate.

**Foreign Exchange Trading.** Foreign exchange (forex) trading can be legitimate for governments and businesses, and it can even be appropriate for some individuals. But the average investor should be wary when it comes to these complex markets.

**Internet Fraud.** Scamsters continue to use technology to lure investors into “pump-and-dump” schemes. Be wary of investments pitched through unsolicited e-mails, instant messages and phony Web sites.

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**Investment Seminars.** Promoters of unsuitable investments are increasingly seeking potential investors, particularly seniors, by offering seminars. Many of them promise a free meal along with “higher returns and little or no risk.” The meal may be free, but the investment often is risky and costly.

**Oil and Gas Scams.** Rising oil and natural gas prices have increased the appeal of energy investments. Most of these investments are highly risky and not appropriate for smaller investors.

**Prime Bank Schemes.** Promoters of these schemes offer to let the “little guy” in on what they claim are financial instruments from elite overseas banks usually offered only to the world’s wealthiest investors. Prime banks do not exist and the scam artists only create a profit for themselves.

**Private Securities Offerings.** Con artists are turning increasingly to private securities offerings under Rule 506 Regulation D of the Securities Act of 1933 to attract investors without having to go through the full registration process. Although sometimes legitimate, these offerings are often associated with fraud.

**Real Estate Investment Contracts.** Investments in real estate long have been viewed as a “sure thing” with little downside risk and the potential for substantial returns. Even if an investment involves real estate, it may still be a security subject to full regulation under state and federal securities laws.

**Unlicensed Individuals and Unregistered Products.** Anyone selling securities or providing investment advice usually must be appropriately licensed. It should raise a red flag for investors if someone engages in these activities without a valid license.

**Unsuitable Sales.** What might be suitable for one investor might not be right for another. Securities professionals must know their customers’ financial situation and refrain from recommending investments they have reason to believe are unsuitable.

Lawrence strongly advises that investors contact OFI’s Securities Division at 800-223-2579 with any questions about an investment product, broker or adviser before making an investment.

“The best time to call us is before you part with your hard-earned money,” Lawrence said. “It only takes one bad decision to wipe out your savings.”

OFI is an agency of the Department of Public Protection in the Environmental and Public Protection Cabinet. It licenses, charters and regulates the activities of state-chartered/licensed depository and nondepository financial institutions.